

USAID/Bissau FY 1996-1999

Results Review and Resources Request

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USAID/Bissau FY 1999
Resources Request

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PART I: OVERVIEW AND FACTORS AFFECTING PROGRAM PERFORMANCE

During 1996, USAID/Bissau completed a number of tasks which bring this program much more in step with USAID's Re-Engineering although the mission's Goal continues to be market-oriented economic growth that is broad-based and sustainable. With assistance from USAID/Washington, USAID/Dakar and REDSO/WCA, the Results Framework was completed; indicators were identified; targets were set and, in most instances, a baseline was gathered to better define how we plan to achieve this goal.

Working through this process, the USAID staff, our partners and our customers have a much better grasp of USAID's results orientation. After considerable work in this process, one of our own conclusions was that our Strategic Objective of private sector trade and investment increased through improved governance requires the critical intermediate result of an improved understanding of development economics by our partners and, particularly, our customers. An improved comprehension of the results we are trying to achieve is an important step in the process of understanding market economics. Thus, in the dialog to complete our results package, we have had the side benefit of achieving some small measure of one of the critical intermediate results needed to accomplish our goal.

The macroeconomic picture of Guinea-Bissau remained mixed. GDP continued to grow at 5.8% for 1996. This was mostly due to continued expansion of agricultural production of exportable crops reflecting favorable weather conditions and market incentives and sustained by significant private investment in this sector. In particular, cashew nut production increased by 39% to 40,000 tons in 1996. In May 1996, the IMF Board approved Guinea-Bissau's Policy Framework Paper for the period of 1996-1998. It also approved a second annual loan for Guinea-Bissau under the Enhanced Structural Adjustment Facility. With the increase of export receipts in U.S. dollar terms of 8%, the external current account deficit is estimated to have declined to 19% of GDP. However, external debt remains a major constraint in the short-term. Guinea-Bissau's debt burden remains colossal and, short of a miracle, donors will be required to assist in its removal.

In an effort to improve macro-economic performance, there has been considerable progress made in 1996 toward Guinea-Bissau's entry into the West African Monetary Union, a regional finance and commercial organization. The Popular National Assembly passed the necessary constitutional amendments. The GOGB negotiated a new agreement with Portuguese creditors on the forgiveness and rescheduling of a portion of the Central Bank's debt. Other debt forgiveness and rescheduling are being negotiated and may be a reality in the near future. Although a variety of issues remain, the agreement between the West African Monetary Union and the GOGB has been signed and admission is scheduled for May 1997.

Guinea-Bissau's one million inhabitants remain among the poorest in the world. The United Nations Human Development Index advanced Guinea-Bissau from the 164th place in 1992 to 161st in 1996 in the 174 nation index. In per capita terms, Guinea-Bissau has one of the lowest

gross domestic products juxtaposed against the world's highest foreign debt burden. Guinea-Bissau did make a model transition to multiparty democracy in 1994 and local elections are planned for sometime in the coming months.

Guinea-Bissau plays a positive role in international affairs and in 1996 became a nonpermanent member of the United Nations Security Council; in 1997, it voted with the U.S. more than 98 percent of the time in the United Nations. The country contributes to peacekeeping operations to the extent resources allow; officers presently serve with United Nations observer missions in Liberia and Angola. A platoon from Guinea-Bissau served in Rwanda with operation Turquoise/Unamir and police were sent to Haiti. The military is prevented from contributing to United Nations peacekeeping missions by the lack of trained personnel and basic equipment. Guinea-Bissau is working with its neighbor, Senegal, to resolve the Casamance insurgency on the border; joint operations with Senegal were held in 1995. Bilateral relations with the U.S. are good and the trend is increasingly positive.

PART II: PROGRESS TOWARD OBJECTIVES

1. Performance Analysis

Three years of activities and interventions under the present strategy, have begun to produce substantial and potentially long-lasting impacts. Guinea-Bissau now has a functioning, successful national court system for small claims that did not exist. Guinea-Bissau has revised its industrial fishing zone management and licensing practices, has created a better climate for local investment in the sector, and developed the capacity to manage this resource for sustainable yields and more revenues for the national treasury. Private sector associations have become a voice for their members within the developing civil society.

Perhaps most critically, there is a growing understanding of market economics which becomes more apparent every day. The continuing growth of confidence in the private sector to represent their own interests and to influence the government is strengthened by this understanding. Government has increasingly sought input from the private sector. For example, the Ministry of Fisheries actively involved the private sector in its policy changes, and the Prime Minister accepted an invitation to meet with Chamber of Commerce for the first time to discuss policy matters.

In 1992, only one national association was functioning (the Chamber of Commerce Industry and Agriculture) with a 50 person membership and few services for members. Through USAID support (including P.L. 480) local organizations are organizing, providing services and promoting the interests of their members through dialogue with the government and other associations. Due to direct support from USAID, at least 15 national associations and multiple local associations had become active by the end of 1996, representing more than 16,000 members, including hundreds of smaller organizations in the interior. These associations provide business and technical training to their members with ever decreasing support from USAID.

Working with the associations, USAID's TIPS program has helped to transfer technology to hundreds of producers in the fields of cashew processing, perennial tree crop and horticulture. The Quinhamel Training Center has trained more than 400 people in cashew processing techniques. These efforts have spawned the creation of five additional training centers elsewhere in the country, staffed by Quinhamel graduates and funded by other non-government organizations and donors. In addition, numerous processing units have been created and are now operational. Center graduates have opened 18 family units and entrepreneurs are preparing to open additional commercial units, using Quinhamel graduates. The quality of production has created interest among regional and international buyers (including Americans), who are investigating the potential export opportunities.

As a result of TIPS training in perennial tree crops, Guinea-Bissau now has private-sector groups offering services and additional training in these areas. Improved mango and citrus varieties have been planted and grafted to provide regional repositories of these varieties for improvement

of existing trees and expansion of more productive trees. The volume of plantings and grafting supported to date will make Guinea-Bissau one of the largest producers of export-quality mangoes and citrus fruits in West Africa within five years.

Per capita agricultural production grew by 21% between 1992 and 1996; rural farm income grew by 26%; and rural family income climbed at an average 6.1% each year during this period.

USAID's investment in training and capacity-building has provided a foundation of local human resources to achieve this growth and our strategic objective. The demand-based approach has ensured that the training reflects the needs of local counterparts who have identified and overcome constraints to economic growth.

The associations have also become effective interest groups, strengthening the base of the developing civil society. In 1996, the National Agricultural Producers' Association successfully defeated an attempt by the former cashew cartel to reassert control over cashew exports, and eventually, cashew prices. The National Business Women's Association staged the first-ever national trade fair in Guinea-Bissau, which was visited by more than 10,000 people and generated more than \$70,000 in sales and hundreds of person-hours of training for participants. The National Business Women's Association also assembled other associations for a televised press conference to challenge government actions with respect to a national center for associations. The Chamber of Commerce for Industry and Agriculture arranged a half-day meeting with the Prime Minister to discuss plans and policies for the private sector, and staged a televised debate on exchange rate policy. In general, these associations have become very vocal, visible and vibrant representatives of their members.

In a second critical growth sector, a new licensing system for the industrial fishing zone, adoption and implementation of fisheries management plans, and other improvements will permit Guinea-Bissau to harvest one of its most valuable resources in a more sustainable manner. The changes have encouraged local investment in the fisheries sector (14 new firms have been registered since 1994) and will bring more of the benefits of foreign investment onshore through jobs, processing and local sales. When TIPS helped the Government establish a fisheries management plan for 1996 and 1997, it had the additional benefit of enabling the Government to meet European Union conditionality with the disbursement by the Europeans of 1.2 million ECUs for more work in this sector.

In fact, Guinea-Bissau is playing a major role in developing a regional approach to the management of fishing resources, working with Guinea Conakry, Senegal, The Gambia and Mauritania to improve regional surveillance and management of this resource so valuable to the economies of each of these countries.

TIPs helped the newly established legislature, the National Popular Assembly, install a system for recording proceedings. TIPS also worked with local ministries and the Assembly to analyze

various needs for regulatory change and has worked through the local bar association to compile and publish laws affecting trade and investment. Much progress has been made to establish sustainable local capacity to analyze, draft and promote regulatory changes which will continue to improve the investment and business climate.

In 1993, there was very little access to justice through the courts. The few courts existing at the time (four regional courts and the Supreme Court) were part of the executive branch and lacked autonomy. They were too far away and too expensive for most of the population, thus, they handled only a few hundred commercial cases each year. An attempt to create popular, lower level courts in the early 1990's had failed completely, leaving most of the population without redress for their legal needs.

During the past two years, TIPS has helped Guinea-Bissau to install 24 Small Claims Courts throughout the country. This assistance has included initial and follow-up training for judges, clerks and prosecutors, and material support in terms of record books, court dockets and basic furniture needs. The courts have been widely accepted and used by the local population, having heard more than 2,000 commercial disputes in 1996, the first year of full operation. By establishing this system, the country has also reduced the involvement of police in commercial matters, relegating them to a more appropriate enforcement role. These efforts have laid the foundation for the rule of law through a system which harmonizes the application of customary local law and national regulations.

TIPS has also provided technical support to local counterparts to revise the centralized, antiquated and bureaucratic notarization and registration requirements that have hindered commercial transactions and business participation in regional trade. TIPS helped local counterparts draft and secure approval for new laws and regulations to facilitate registration, notarization and licensing, through simpler procedures and through decentralization of the offices providing the services. This has already reduced the time and costs for regional trade passing through the most eastern region of the country, Gabu. Decentralization of regional trade documentation also permits conflicts or disputes to be resolved locally, near the borders instead of forcing traders to invest the time and expense of seeking recourse in Bissau.

Although the International Monetary Fund is the lead donor in tax reform, TIPS has helped key public and private-sector decision-makers come together as well as the public to recognize the need to simplify and rationalize the existing tax structure. This has led to a request for technical assistance which will be addressed in 1997. Although this is primarily an International Monetary Fund and World Bank initiative, this area of reform is one of USAID's highest priorities during the remainder of the program simply because of the impact on the results we are trying to achieve.

Donor coordination notably improved in 1996 in part because of a United Nations Development Program Resident Representative committed to donor coordination but also because the TIPS

contract team facilitated and supported the effort. This group provides a forum to discuss development theory, to explore donor priorities and to coordinate efforts. In part because of the dialog which started through this group, USAID and the United Nations Development Program worked closely to encourage the introduction of Internet. As a consequence, Internet through Portugal is already functioning and it appears a direct Internet connection to the United States will be installed before the end of 1997 through the Leland Initiative. USAID and United Nations Development Program have also coordinated efforts in the more sensitive area of Good Governance. Although a tremendous amount of work remains, there is much more appreciation of the high costs of poor government management and of corruption.

There are additional coordination and collaboration between USAID, the International Monetary Fund and the World Bank. Their representatives regularly consult directly with USAID as well as the TIPS contract staff on planned and ongoing work. One result is that the World Bank has agreed to provide complementary funding in 1997 for judicial and notarial infrastructure while TIPS trains and works with the professional staffs.

2. EXPECTED PROGRESS THROUGH FY 1999 AND MANAGEMENT ACTIONS

The re-engineering process has permitted USAID to review priorities and needed resources and redefine the program to increase impact. Re-engineering exercises permitted us to reconfirm the development hypothesis underlying the program, namely, that successful long-term development requires good governance, private sector growth and sustainability. Through this process, the concept of Critical Growth Sub-Sectors was replaced with a broader view of economic development. To achieve the strategic objective of increased private sector trade and investment under re-engineering, the team identified six key intermediate results.

- IR 1 - Improved Trade and Investment Policies Implemented
- IR 2 - Contracts Enforced and Business Conflicts Resolved by an Independent
Judiciary
- IR 3 - Number of New Investors Increased
- IR 4 - Private Business Profits Increased
- IR 5 - Natural Resources Managed in a Sustainable Manner
- IR 6 - Infrastructure that Adequately Supports Growth in Production, Marketing and Export

Each of these results involves aspects of governance, private-sector stimulation and sustainability. One significant change from our Re-engineering efforts is modification of particularly, the TIPS approach to more actively integrate crosscutting inter-related activities through focus in five areas:

a. Political: Government can work as a partner or impediment to economic development. USAID continues to promote more responsive government institutions that engage the private sector in dialogue and policy development. Because the policy process includes both formulation and implementation, we are working to improve governance by reducing obstructive behaviors which inhibit commerce, while increasing governmental and private sector capacity to formulate, coordinate and implement growth-oriented policies.

b. Legislative: USAID will continue working with the National Popular Assembly to develop participatory legislative processes which integrate constituents' concerns through open dialogue with the private sector. This is designed to lead to a more socially responsive system for formulating law and policy.

c. Judicial: USAID will maintain and expand programs to develop an independent judicial system that can enforce legislation and private law (contracts) based upon non-discretionary legal principles -- the rule of law. Establishing a reliable adjudication system is essential to protect the investment climate and legitimize market relationships. USAID will continue to support the Small Claims Courts, but will also focus attention on the regional courts to establish judicial competence at levels that can protect larger investments.

d. Private Sector Stimulation: For Guinea-Bissau to develop economically, the private sector needs support through sound macro-economic policies and practical micro-economic interventions. We will continue to increase the public and private sector understanding of market-oriented economics, and of the policies necessary to increase profits and encourage private-sector investment. We will emphasize improved management of the entire economy, but focus on three priority "macro" areas for interventions: fiscal policy, regional integration and development of broad-based credit institutions.

Sound policies are necessary for growth, but they are not sufficient. We will continue to address the need for direct micro-economic assistance to producers, through their associations, to increase production, productivity and profit while reducing production costs. We will continue to strengthen the ability of national associations to provide meaningful services to their members --primarily through training in business skills and applied technology. At the same time, we will help the associations develop the capacity to represent their members interests through dialogue with the government.

Finally, we will also focus on the need for domestic, regional and international investment promotion, and give specific attention to the needs of new investors. As in other areas, future work will bring the public and private sectors together to ensure a private-sector orientation while reinforcing the concept of responsive government.

e. Sustainability: Finally USAID recognizes that the long-term health of the economy will require substantial improvement in the areas of natural resource management and infrastructure development. Because other donors are working in these areas and because of our own limited

resources, we will rely on others to address most of these large-scale needs. USAID will continue to organize and evaluate activities to ensure the maximum positive impact on sustainability from its program.

Although infrastructure generally will not be a priority for the USAID program through the Leland Initiative, USAID will work to expand Internet and, therefore, telecommunication services much more widely throughout the country.

In addition, in response to the Programmatic Environmental Assessment of the USAID program which is being completed now, while we will not take a lead in natural resource management, our work in land tenure and other ad hoc assistance (such as participation in international environmental conferences) will improve the sustainability of our efforts. We will especially encourage the Government's development of an Environmental Action Plan.

Five priority areas for the remainder of the program because they have been determined to have the greatest impact for broad-based, sustainable development:

a. Improved Understanding of Market-Oriented economics: The legacy of colonial rule and a post-independence command economy built no theoretical foundation for Guinea-Bissau's shift to a market economy. Consequently, public policy and private sector business decisions are not always well founded in a market economic theory. We will promote understanding of key economic concepts which are vital to establishing the economic and business climate needed for increased and sustainable growth.

b. Improved Fiscal Policy: Fiscal policy is a vital government tool for economic development, but Guinea-Bissau's policy neither reflects nor contributes to a development strategy. This will become increasingly important with entrance into the West Africa Monetary Union when Guinea-Bissau will no longer set its own monetary policy.

c. Broad-Based Savings and Financial Facilities Extended to Private Sector Producers: Credit and savings -- other essential factors in broad-based growth -- do not exist for the bulk of Guinea-Bissau's population. USAID will help the government and private sector to create savings-based credit options and to capture and channel domestic resources into increased domestic investment.

d. Increased Access to International Markets: Sustained and sustainable growth will require larger markets for Guinean products. With limited investment of public resources, the government can substantially improve the trade and investment climate. USAID will help the government remove legal and policy barriers to increased regional and international trade, and to increase the private sector's access to those markets. USAID/BISSAU will also work with REDSO/WCA to take advantage of as many regional activities promoting regional economic integration as possible.

e. Increased Private Sector Productivity and Production:

Through micro-economic interventions, USAID will support the ongoing development of private-sector associations and individual businesses. The primary mechanism to be used is training to development the capacity to increase productivity and production of goods and services at lower costs thus increasing profitability.

The current plan of work for the remainder of the program reflects the innovative design which has been the hallmark of the Trade and Investment Promotion Support program for Guinea-Bissau. Building on results and respect from local counterparts, we will continue to pursue the original strategic objective of achieving market-oriented economic growth for Guinea-Bissau that is broad-based and sustainable.

PROGRAM GOAL: MARKET-ORIENTED ECONOMIC GROWTH THAT IS BROAD-BASED AND SUSTAINABLE

The goal of the TIPS program is the economic development of Guinea-Bissau. The program places a substantial emphasis on making the government a partner in development for the general population, based on the pre-supposition that long-term development can be sustained with good governance. The indicators below give a statistical profile of Guinea-Bissau's economic development since 1992. The Statistical base year of 1992 is the year prior to start-up of TIPS, and the goals are those defined by the TIPS Program.

1. ECONOMIC GROWTH.

INDICATOR

a. Growth in GDP

b. Growth in GDP per capita

TARGET

a. 25% over life of project

b. 12% over life of project

	Base-Year						Goal
	1992	1993	1994	1995	1996*	1997	1998
1a. GDP (US\$ millions)	278.7	285.6	299.9	310.8	324.8	-	349.4
Growth Rate (av. yearly % change)	1.8%	2.5%	5.0%	3.6%	4.5%	-	-
Index-GDP (1992=100)	100.0	102.5	107.6	111.5	116.5	-	125.0
1b. GDP per Capita (US\$)	279.3	280.9	289.2	294.4	301.3	-	312.8
Index-GDP per Capita (1992=100)	100.0	100.6	103.6	105.4	107.9	-	112.0
Population (millions)	1.00	1.02	1.04	1.06	1.08	-	-

Source: Instituto Nacional de Estatística e Censos (INEC), March 1996

* TIPS Estimate

Economic Growth: The mid-1980s brought the opening of Guinea-Bissau's economy to private sector activity after years of central planning. The private sector started with virtually no

experience in a market economy, and faced numerous commercial constraints. In 1994, the government adopted a structural adjustment program, supported by IMF, which strictly defined much of the country's economic policy. Even with these restrictions, Guinea-Bissau has achieved the fastest growth rate of any West African country while overcoming many constraints. Since 1993, the average annual growth rate has increased to 3.9%. The growth targets in both GDP and GDP per capita are in line with the 1996 growth rate of 4.5%. Additional assistance and reforms in macro-economic policy should make it possible, however, to accelerate 6-8% in the next few years. This level that would permit the possibility of overcoming poverty and improving the quality of life for the population as a whole. TIPS is working with local counterparts to revise policies and practices which are impeding growth, such as fiscal policy and insufficient regional integration, and to improve micro-economic performance at the producer level through improved production and productivity at lower costs.

2. MARKET ORIENTATION

INDICATOR

TARGET

- a.** Increase in privatization, liquidation and elimination of state-owned enterprises. **a.** At least 10% of state-owned or controlled enterprises will be privatized, liquidated or eliminated by end of project
- b.** Decrease in number of administratively determined prices **b.** Less than six prices set by Government by end of project
- c.** Rural household income **c.** 16% increase by end of project

	Base-Year						Goal
	1992	1993	1994	1995	1996*	1997	1998
2a. No. of State-Owned /Controlled Enterprises	41	41	39	38	35	-	30
2b. No. of Admin. Determined Prices	6	5	5	5	5	-	<6
2c. Total Rural Household Income	\$1,049	\$1,121	\$1,187	\$1,284	\$1,328	-	1,217
Index-Rural Household Income	100.0	106.8	113.1	122.4	126.6	-	116.0

"Source: 2a, Unidade de GestGo da Reforma das Empresas Publicas e Mistas; 2b, Ministry of Finance; 2c, INEC,

March 1996"

* 1994 figures for 2c estimated by TIPS

2a. Increased Privatization. Guinea-Bissau has made significant progress in reducing its portfolio of state-owned enterprises. The government began to liquidate and privatize companies in 1986 under the IMF structural adjustment program, and has already eliminated 29% of its holdings. Of the remaining enterprises, more than half are in the process of being privatized or liquidated. Some divestiture was accomplished through monopoly concessions to private sector entities through sale or management contracts: for example, the utilities company (EAGB) and the telephone company (Guiné-Telecom), both of which have had disappointing performance. Over the past year, however, actions have been taken to loosen the monopoly of these companies to make their privatization more meaningful in terms of services. USAID continues to promote better understanding of the negative impact of monopolies on markets; and USAID has worked to bring internet services to Guinea-Bissau through implementation of the USAID's Leland Initiative, which are resulting in the installation of competitive, private-sector internet services in 1997. Progress in privatization and divestiture of other entities is expected to continue through the end of the project.

2b. Administratively Determined Prices. In 1994, the TIPS program of national dialogue between the public and private sectors on constraints to commerce culminated in the first National Conference on Commercial Law. At the conference, representatives from public and private sectors (both formal and informal) proposed legislative changes which would eliminate the principal barriers to commerce. These included elimination of prices controls, simplification of business registrations, elimination of anti-competitive requirements of registration, and decentralization of border-trade documentation (which had been limited to Bissau). Through subsequent events, USAID has supported the preparation, adoption and, to varying degrees, implementation of these amendments. As a result, there is already more commercial competition, the cost (dollar and time) of border trade has been reduced, and price controls have been technically eliminated. Although several maximum prices remain in effect (ceilings on bread, public transport fares, gasoline, water and electricity), dialogue between the government and the private sector, supported by TIPS, has changed the rules of the game and taken the government out of price-fixing. TIPS continues to work with local counterparts to reduce bureaucratic constraints to commercial activity, such as delays caused by centralized processes, and overly-complex licensing procedures and requirements.

2c. Rural Household Income. Economic activity in the rural zones has increased markedly since liberalization began in 1986, but has jumped even more dramatically since 1992. This income trend closely tracks market developments over the same period. In the 1980s, the growth of cashew exports provided small producers with income opportunities. Income growth was stunted, however, by two factors: high export taxes, and the emergence of an export cartel that controlled producer prices by 1992. With encouragements from the IMF/World Bank, USAID and TIPS, the taxes were progressively reduced from 35% to 20% by 1995, freeing more

revenues for producer prices in a competitive market. Competition opened in 1994 under two initiatives. First, the 1994 National Conference on Commercial Legislation removed artificial restrictions on business and export licensing, thus eliminating the cartel. Second, USAID supported development of broad-based producer associations which in turn provided market and price information to rural cashew producers. As a direct result of these interventions, farmgate prices have risen through market competition from \$140/ton in 1992 to \$440/ton in 1996 (despite falling international prices). This market pricing has in turn meant higher income for the rural families who produce the cashews.

INDICATOR

TARGET

- | | |
|---|--|
| a. Increase in cashew production | a. 40% increase over life of project |
| b. Increase in agricultural production project | b. (1) 28% increase in total production over life of project |
| | (2) 14% increase in per capita production over life of project |
| c. Improved quality of life represented mortality, and | c. Generally improved quality of life by end of project, by 10% improvement in life expectancy, infant adult literacy |

	Base-Year						Goal
	1992	1993	1994	1995	1996*	1997	1998
3a. Cashew Production (tons)	25,660	27,791	29,820	30,000	45,495	-	42,640
Production Income (US\$ 000s)	3,592	8,087	9,244	12,000	20,018	-	-
Index-Producer Income (1992=100)	100.0	225.1	257.3	334.0	557.2	-	-
3b(1) Total Ag. Production (US\$ millions)*	113.0	121.2	128.8	139.9	147.7	-	158.2
Modern Sector	9.4	9.9	10.4	11.0	-	-	-
Traditional sector	103.6	111.3	118.4	128.9	-	-	-
Index-Total Production (%)	100.0	107.3	114.0	123.8	130.7	-	128.0
Index-Modern	100.0	106.0	110.9	117.2	-	-	-
Index-Traditional	100.0	107.4	114.3	124.4	-	-	-
3b(2) Total Ag. Production per capita	\$113	\$119	\$124	\$132	\$137	-	129

Population (in millions projected from 1990 census)	1.00	1.02	1.04	1.06	1.08	-	-
Index -Total Ag. Production per capita (1992=100)	100.0	105.0	109.8	117.0	121.0	-	140.0
Total Rural Households (000s)	107.7	108.1	108.5	108.9	111.2	-	-
Total Ag. Production per Rural Household	\$1,049	\$1,121	\$1,187	\$1,284	\$1,328	-	-
Index-Rural labor production	100.0	106.8	113.1	122.4	126.6	-	-
	1992	1993	1994	1995	1996*	1997	1998
3c. Human Develop. Index Ranking	164	163	161	-	-	-	
Life Expectancy at Birth	42.9	43.7	44.5	-	-	-	47.2
Infant Mort. p/1,000 at birth	141	139	138	-	-	-	127
Adult Literacy Rate (% of age 15+)	39.0	52.8	55.0	42.9	-	-	-

"Sources: 3a, TIPS Cashew report (TIPS Report No. 36) and CCIA for 1996 cashew production; 3b, INEC, March 1996; 3c, United Nations Development Program, Human Development Report, 1994-96;" World Bank, World Development Report, 1993-96

*Values are in 1986 dollars based on an 1986 average exchange rate of US\$1=GP203.6 **TIPS Estimate

3a. Cashew Production. Cashew production has contributed more to Guinea-Bissau's economic development than any activity in the past decade. The estimated 1996 cashew production (45,495 metric tons) already exceeds USAID's 1998 target. Income derived from the cashew trade has increased demand for other goods and services and provided capital for new investment in perennial tree crops and other activities. As discussed in 2c, Rural Household Income, USAID-supported initiatives to open competition, lower cashew taxes and dissemination market information which together caused producer prices to rise more than 200% per ton between 1992 and 1996. Cashew production and its growth are fundamentally broad-based, with 40,000 rural "grass roots" households (50% of the rural population) producing 90% of each year's cashew crop. USAID also continues to support reduction of cashew export taxes and expansion of market price information to bring the benefits of cashew production back to the producer.

The impact of this change extends benefits beyond the cashew-producing households, whose income has grown since 1992 by 456.2%, thanks to increased production and competitive prices. It is assumed that producers increase their demand for consumer goods and food (due to increased overall food consumption and substitution of some food (rice) production with their cash crop) as more income is produced. This demand for food then increases the cash income of non-cashew producer households, especially producers of rice and other subsistence crops, while the demand for consumer goods spurs growth in the commercial sector.

It should be noted that this broad-based growth is not limited to income. The planting of cashew trees represents an increase in wealth: the trees have a 30-40 year productive life after the initial investment of planting, and also give the planter a recognized claim of ownership in the underlying land (Under customary land law, ownership is gained through use, including planting of perennial crops.) This directly increases the market value of the land held by producer families.

3b. Agricultural Production. Agricultural production drives Guinea-Bissau's economic growth. Production has increased 30% since 1992, already exceeding the USAID 1998 target of 28% growth, representing an average annual rate of 6.9%. The economy as a whole has grown 16.5% during the same period. This reflects a very dynamic agricultural sector, with producers investing in higher-value agricultural activities (perennial tree crops such as mango and citrus, as well as cashew). At the same time, demand for other agricultural products is increasing, leading to self-generating agricultural growth. USAID has worked closely with broad-based producer organizations since 1993 to improve the level of agricultural production in perennial tree crops and horticulture. TIPS assistance in this growth has been directed not only at tree crops, but also at horticultural producers (representing more than 10,000 women) to raise productivity and lower costs.

3b(1) Total Agricultural Production. Increased agricultural production reflects changes in the wealth of the producers: additional production can either be eaten (serving as a substitute for [savings on] purchased foods), or sold to generate cash income. Comparisons of total production by sector show that the traditional sector is the moving force behind Guinea-Bissau's agricultural growth. Traditional agricultural production consistently accounts for more than 90% of total production. Between 1992 and 1995, traditional agriculture grew at 8.1% annually, while modern agriculture grew at 5.7%. Even more importantly, investment in traditional agriculture was self-generated, with little or no outside financial assistance or credit, while modern producers depended heavily on foreign loans and grants.

3b(2) Agricultural Production per Capita. Per capita agricultural production grew by 21% between 1992 and 1996; rural farm income, however, grew by 26%, with the average family receiving \$1,328 per year in 1996, compared with \$1,049 in 1992. The traditional farming sector has thus been able to capture the benefits of its increased production, with rural family income climbing at an average rate of 6.1% each year during this period. As improved technology is introduced at the traditional level, even greater levels of productivity are expected.

3c. Improved Quality of Life. Guinea-Bissau continues to rank as one of the poorest countries in the world, but it is making progress both in relative and absolute terms, according to the United Nations Human Development Index. The index currently ranks 174 countries by order of socio-economic development, based on three developments components: longevity, knowledge and standard of living. Between 1992 and 1994, Guinea-Bissau advanced from 164th place to 161st, evidencing real progress in all three indicators. More importantly, these modest gains are more sustainable because of higher income levels generated by rural households. By 1998, rural incomes will have grown by more than one third since 1992 to more than \$1400 per family. Major progress will require government policy support backed by budget allocations, but population has already begun to use its increasing wealth and income to invest in private-sector schooling and medical care

4. SUSTAINABLE

INDICATOR

TARGET

- a. Balance of Payments 16% decrease in balance of payments deficit over life of project
- b. Government Revenues and Expenditures 16% decrease in revenue gap over life of project
- c. Prices 16% decrease in rate of inflation over life of project
- d. Stability Increased socio-economic and political stability

	Base-Year						Goal
	1992	1993	1994	1995	1996*	1997	1998
4a. Balance of Payments (in US\$ millions)	-35.7	-44.3	-50.3	-22.3	-19.4	-	-29.9
Goods and Services	-107.3	-66.9	-47.5	-63.3	-61.3	-	-
Trade Balance (net)	-77.1	-37.9	-20.6	-35.4	-35.1	-	-
Imports FOB	-83.5	-53.8	-53.8	-59.3	-62.4	-	-
Exports FOB	6.5	16.0	33.2	23.9	27.3	-	-
Services	-30.3	-24.6	-24.5	-21.1	-21.3	-	-
Capital Income	0.0	-4.5	-2.4	-6.7	-4.9	-	-
Fishing Licenses	13.5	10.8	11.7	11.3	13.4	-	-
Interest	-13.5	-15.3	-14.1	-18.0	-18.3	-	-
Current Transfers	10.4	5.5	9.1	21.5	13.2	-	-
Official	11.0	7.1	10.1	20.2	10.3	-	-
Private	-0.6	-1.7	-1.1	1.3	2.9	-	-
Capital Account	28.5	39.9	44.4	49.2	37.1	-	-
Financial Operations Account	-32.9	-22.4	-56.2	-29.7	-8.4	-	-
Balance of Payments/GDP	-12.8%	-15.5	-16.8	-7.2	-6.0	-	-
Trade Balance/GDP	-27.6%	-13.3	-6.9	-11.4	-10.8	-	-
Current Account Balance/GDP	-34.8%	-21.5	-12.8	-13.4	-14.8	-	-
4b. Tax Rev/Current Expend. (%)	24%	37.9	44.3	54.1	52.8	-	42%
Tax Revenue (in \$US millions)	8.7	12.0	14.8	16.1	12.5	-	-
Current Expenditure (in \$ millions)	63.1	31.7	33.5	29.8	23.6	-	-
Annual % Change-Tax Revenue/Expenditures	-29.8%	57.8	16.7	22.2	-2.4	-	-

Index - Tax Revenues	100.0	138.2	170.6	185.5	143.5	-	-
Index - Current Expenditures	100.0	87.6	92.6	82.4	65.4	-	-
4c. Prices							
Inflation (End of Period CPI)	86.7%	30.7%	19.3%	79.7%	66.6%	-	72.8%
Exchange Rate (End of Period US\$=GPX)	8,655.6	11,463.8	15,269.3	21,928.8	34,936.3	-	-
Devaluation	74.5%	32.4%	34.1%	42.7%	59.3%	-	-
Interest Rate: 90-day passive (Yearly average)	36.8%	50.5%	29.3%	23.9%	42.3%	-	-
91-180 Active (yearly average)	45.4%	68.4%	37.1%	32.5	51.3%	-	-
4d. Stability -- See narrative discussion below							

Source: Central Bank, 1996, 1997 * Preliminary Data

4a Balance of Payments. While encouraging progress was made in 1995 and 1996, Guinea-Bissau continues to have difficulties with a negative balance of payments. If current trends continue, USAID will exceed the 1998 target of a 16% decrease in the balance of payments deficit. In the capital income account, interest payments on the country's overwhelming debt burden continued to exceed income from fishing licenses, even though license revenues have returned to 1992 levels (largely due to key TIPS-financed studies in the fisheries sector which led to renegotiation of EU licensing agreements). Estimates of the balance of payments in 1996 indicate that the external current account deficit was 23.7 percent of GDP as against the earlier estimate of 27.9 percent, mainly because of lower scheduled interest payments and higher exports of goods and other services. Lower-than-expected external assistance was offset by higher debt relief, including deferment of payments on debt obligations with non-Paris Club creditors and cancellations by some Paris Club creditors. Guinea Bissau remains highly dependent upon outside assistance.

4b Tax Revenues/Current expenditures. Tax revenues have gone from only 24% of current expenditures in 1992 to 52.8% in 1996, already far exceeding the 1998 target of 42%. This is due to the GOGB's commitment and ongoing efforts to cut public sector expenditures, resulting in a decrease in current expenditure from \$36.1 million to \$23.6 million, a drop of 34.6%. Tax revenues have stayed within historical averages, at \$12.5 million for 1996.

4c Prices. After a substantial drop in inflation due in part to the 1994 devaluation of the Franc-zone CFA, inflation returned to higher levels in 1995/1996 (at 66.6% in 1996 this is still well below the target of 72.8% for 1998).

4d Socio-Economic and Political Stability Guinea-Bissau's macro-economic performance has been strongly influenced by the 1994 IMF-supported structural adjustment program. While performance is improving, the GOGB still faces considerable challenges. Dependence on foreign assistance, overwhelming foreign debt, fiscal deficits and a negative balance of payments all impede economic growth. The 3.9% annual growth since 1992 would certainly be larger if

Guinea-Bissau enjoys a strong sense of stability. The country continues to consolidate democratic and pluralistic gains which began with the first multiparty presidential and legislative elections in 1994 (judged free and fair by outside observers). The People's National Assembly is steadily maturing and has begun to challenge and negotiate more effectively with the Executive Branch. The Assembly refused to "rubber-stamp" the government's decision to enter the West Africa Monetary Union (UEMOA), and did not pass the proposal until a number of serious questions had been satisfactorily dealt with. The private sector is finding its voice and engaging the government in important policy dialogues. Associations have increased their political impact: they defeated anti-competitive legislation which would reinstate the cashew cartel; requested and received meetings with the Prime Minister to discuss policy; and even organized a televised press conference to denounce an apparent retraction by the government of a promise to cede certain property to the private sector. The political landscape has changed substantially since 1992. The balance of these changes continues to be positive because of increased civil society participation and growing public sector recognition to the need for private sector input.

1. TRADE

INDICATOR

TARGET

- | | | |
|--|--|------------------------|
| a. Increase in Exports | a. 34% increase over life of project,
based on 3- year moving average | b. Increase in Imports |
| b. 16% increase over life of project,
based on 3- year moving average | | |
| c. Increase in Domestic | c. 25% increase over life of project | Commerce |

	Base-Year						Goal
	1992	1993	1994	1995	1996*	1997	1998
Trade	-77.1	-37.9	-20.6	-35.4	-35.1	-	-
3-year average	-57.6	-54.0	-45.2	-31.3	-30.4	-	-
Index (based on 3-yr av.)	100.0	93.7	78.4	54.3	52.7	-	-
1a. Exports	6.5	16.0	33.2	23.9	27.3	-	-
3-year average	15.4	14.3	18.	24.4	28.1	-	20.6

Index (based on 3-yr av.)	100.0	92.9	120.5	158.3	182.8	-	134.0
1b. Imports	-83.5	-53.8	-53.8	-59.3	-62.4	-	-
3-year average	-73.0	-68.3	-63.7	-55.7	-58.5	-	-97.9
Index (based on 3-yr av.)	100.0	93.5	87.3	76.2	80.1	-	116.0
1c. Domestic Commerce	61.2	61.5	66.5	70.5	73.1	-	-
Index	100.0	100.3	108.7	115.1	119.4	-	125.0

Source: 1a-b, Central Bank, 1997; 1c, INEC, March 1996 (dollars based on 1986 pesos at US\$1 = GP 203.627)

*Preliminary Data

Trade: The trade balance has fallen substantially since 1992, from a three-year average deficit of \$57.6 million to \$34 million, a reduction of 41.1%. This reflects a consistent increase in exports, while imports have fallen slightly. The three-year moving average reflects trade accurately by removing distortions caused by a typical events. For example, the serious distortions of 1992-93 resulted from higher taxes combined with falling international cashew prices, which stifled cashew exports.

1a & b. Exports and Imports. Exports have risen almost 80% since 1992, based on the three-year moving average already exceeding the 1998 target. Imports have fallen slowly during the same period by an average of 4% annually. Cashews continue to dominate exports, and accounted in great measure for Guinea-Bissau's ability to cut 41.1% off the trade gap between 1992 and 1996.

1c. Domestic Commerce. Domestic commerce has grown 19.4% since 1992 and the rate of growth is increasing. Since 1992 growth has averaged 4.8% annually and 5.3% over the past two years.

2. INVESTMENT

INDICATOR

TARGET

- | | |
|-------------------------------------|---|
| a. Capital Formation | a. 20% of real GDP by end of project |
| b. Investment in Agriculture | b. (1) 40% increase in cashew production by end of project |
| | (2) 40% increase in perennial tree crop production by end of project |
| c. Investment in Fisheries | c. TBD |
| d. Investment in Industry | d. TBD |
| e. Savings | e. TBD |

	Base-Year						Goal
	1992	1993	1994	1995	1996*	1997	1998
2a. Capital Formation(\$M)	86.6	55.3	45.9	39.4	46.0	-	-

Capital Formation/GDP	31.1%	19.4%	15.3%	12.7%	14.2%	-	20%
Index of Cap. Form./GDP	100.0	62.2	49.2	40.8	45.6	-	-
Fixed Capital Formation	74.2	51.5	55.7	38.4	45.9	-	-
Incremental Capital Output Ratio	14.8	7.5	3.9	3.5	3.3	-	-
Private Capital Formation	39.7	13.6	4.3	15.5	22.0	-	-
Construction	6.9	6	6.5	7	8.7	-	-
Machinery & Equipment	20.3	3.8	7.6	7.5	13.1	-	-
Stock Variations	12.4	3.8	-9.8	1.0	0.2	-	-
Public Capital Formation	47	41.7	41.6	23.9	24	-	-
Construction	38.9	33.7	32.2	18.7	18.6	-	-
Machinery & Equipment	8.1	7.9	9.4	5.2	5.4	-	-
2b. Investment in Agriculture**							
(1) Annual Investment in Cashews (hectares)	7,001	6,620	16,040	18,651	24,975	-	-
Index	100.0	94.6	229.1	266.4	356.7	-	140.0
2) Annual Investment in Perennial Tree Crops (tons)	2,586	2,672	2,761	2,853	2,947	-	-
Index	100.0	103.3	106.8	110.3	114.0	-	140.0
2c. Investment in Fisheries							
Index	100.0	-	-	-	-	-	-
2d. Investment in Industry							
Index	100.0	-	-	-	-	-	-
2e. Savings/GDP	0.6%	2.8%	9.7%	2.1%	0.7%	-	-

Source: INEC, March 1996, Central Bank 1997; 2b(1) TIPS Cashew Report, CCIA

* Preliminary Data ** Cashew Investment figures from 1994-96 and Perennial Tree Crop investment figures from 1992-96 are projections based on historical trends in production and prices.

2a. Capital Formation. Guinea-Bissau's capital formation has fluctuated widely since 1986, and has fallen substantially since 1992, from \$74.2 million to \$45.8 million in 1996, which is 17.6% below the period average of \$53.9 million. Capital formation has also fallen as a percentage of GDP: the ratio stayed above 20% until 1992, and now lies at only 14.11%, a decrease of \$47 million since 1992. Changes will be necessary to return to the 1998 target rate of 20%. On the positive side, however, the incremental Capital Output Ratio (COR) shows

improvement in the productivity of capital over previous years, and shows a trend in improved capital efficiency. The COR has consistently fallen since 1992, when it required \$14.8 million to produce and additional dollar of returns, and now produces those returns for \$3.3 million. Even so, the ICOR is high for developing countries, which normally fall in the range below 3.

2b. Investment In Agriculture. Investment in perennial tree crops has increased steadily. Since 1993, USAID assistance to producer associations in improved varieties, orchard management and fruit export has added an important impetus to this ongoing investment.

Cashew investment has taken on a life of its own. Estimates indicate that producers have been increasing their rate of investment substantially over the past four years, after recovering from the slowdown in 1992, when cashew prices bottomed out at \$140/ton. TIPS is supporting producer associations in better management of cashew orchards, which is expected to produce higher productivity and lower costs for the investment being made.

2c. Investment in Fisheries. No information currently available.

2d. Investment in Industry. No information currently available.

2e. Savings/GDP. Guinea-Bissau's savings rate is still too low. In order for capital formation to be financed domestically, it will be necessary to attain and sustain a much higher rate than the current 0.7%. Until then, Guinea-Bissau will remain highly dependent on foreign donors for its capital formation.

PART II: PROGRESS TOWARD OBJECTIVES (CONTINUED)

3. UNITS IN TRANSITION

Guinea-Bissau will become a non-presence USAID program during FY 1998. While no development assistance funding is requested in FY 1999, we anticipate there will be some form of assistance until FY 2000. Proposed budget levels are adequate to complete the ongoing activities as originally envisioned. Obviously, no new bilateral initiatives are planned at this time although there are several options for continued USAID assistance.

The non-presence assistance in FY 1999 and FY 2000 may be a part of a West Africa Regional strategy or it may be a variety of regional and global mechanisms aimed at continuing efforts already underway. As close-out progresses, adjustments to the program levels and the composition of those levels may be needed.

Plans for the FY 1999 and FY 2000 time period will become more specific over time but we do not anticipate a significant change from the ongoing strategy. Completion of ongoing activities may well be delayed into the FY 1999/FY 2000 timeframe.

As noted in the operating expense narrative, it is recommended that minimal level of local hire

staff as well as TDY assistance be allocated to assure an orderly phase-out of all program activities. All Labat Anderson, Incorporated and all Africare activities are currently scheduled to terminate with the completion of ongoing agreements in FY 1998. However, Labat Anderson, Incorporated has indicated a willingness to extend activities until FY 2000 and Africare is preparing a proposal now for a follow-on program. We will analyze alternative options for a program in the FY 1999/FY 2000 timeframe in the mission's wind-up plan which is being prepared now.

As noted elsewhere, USAID/Bissau is working with the World Bank, the United Nations Development Program and other donors to coordinate efforts to achieve as much synergism of effort as possible in areas such as tax reform, good governance, judicial reform as well as to assure that assistance is not terminated before the impact can be sustained only because of the phase-out of the USAID program.

Finally, we are especially mindful of working to assure the sustainability of the private associations we have nurtured. At this point, it is not clear that any of these associations have adequate support such as fees for services or membership dues adequate to continue activities at the level necessary to influence government actions. For example, while the associations took the lead in identifying ways to get market information to farmers, the associations do not yet have the resources necessary to pay for radio coverage or preparation of bulletins to widely share this information. While the associations are continually gaining in their ability to raise resources and to more effectively manage those resources, the starting point was at a minimal level. There is still room for improvement.

PART III: STATUS OF MANAGEMENT CONTRACT

No changes are proposed for the management contract. It is anticipated that the Strategic Objective will be achieved.

PART IV: RESOURCE REQUEST

1. Financial Plan

As noted in the resource request tables and elsewhere in this narrative, the target program levels for FY 1997 of \$3.5 million and FY 1998 of \$2.5 million will meet all project requirements for the ongoing program. This is not to say that there are no other new initiatives appropriate to enhance the likelihood of achieving our Strategic Objective and the sustainability of this program.

2. Prioritization of Objectives

As one of the least developed nations, Guinea-Bissau certainly merits USAID's assistance in promoting sustainable development. The country's struggle for independence from Portugal ended in 1974. From independence to the mid-1980's, Guinea-Bissau followed a socialist/centrist development policy. Recognizing the failure of that development model, the Government in 1986 signed its first stabilization and structural adjustment agreement with the World Bank and the International Monetary Fund. It is understandable that, because of weak institutions and limited human resources, implementation of the agreed-upon program has at times been difficult, but there has been steady and significant progress, particularly during the years of the current USAID strategy. Price controls have been lifted; government has relinquished most of its directly productive and trade activities; public sector firms are being privatized at a rate satisfactory to the World Bank. Perhaps most notably, public-private sector relations have significantly altered in part because of the USAID assistance.

There has also been slow but steady progress in democratic reforms which are re-enforcing the economic changes. With the 1994 national elections, the planned local elections, the significantly more independent judiciary, the growing influence of the National Popular Assembly, the growing civil sector, all contribute to a stronger democracy and improved government environment.

Because this process is long-term and other donors are already actively working in education, health, infrastructure, etc. the mission's only strategic objective will continue to be our priority. Guineans who see economic payoffs from improved private sector policy, legal, regulatory and judicial environment which they themselves help to put in place should continue to support those changes and should not want to return to a socialist/centrist economy.

3. Linkage of Field Support, Non-Emergency Title II and Title III

In ongoing discussions on the close-out of the USAID program, we are repeatedly asked, "Do not end the scholarships to the universities in the U.S." While some of this enthusiasm is probably associated with the African dream of going to the United States, it is more an acknowledgement of how difficult it is for the people of Guinea-Bissau to get higher education. Except for a law school, a nursing college and a teachers college, there is no opportunity for higher education in Guinea-Bissau. It appears that those most in tune with more market-oriented thinking are those that have studied in the United States for a longer time. As the close-out

progresses, we will be reviewing the option of continuing longer-term training in the United States from this a non-presence country.

The Human Resources Development Project has provided a means to train hundreds in small and micro-enterprise management, the predominant type of business found in Guinea-Bissau, particularly among the less economically advantaged. This activity has also afforded the opportunity for a wide range of development of human resources.

The Title II PL 480 program implemented by Africare is an integral part of the USAID program in Guinea-Bissau. Some of the training materials used by the remainder of the program were developed by Africare based, at least in part, on insights gained in implementing the food aid program. Africare is the first U.S. entity to assist local organizations to become legally recognized in Guinea-Bissau. This is now one of the implementation techniques used in other aspects of the USAID program. Through the counterpart fund jointly managed by the Government and Africare, roads have been repaired to facilitate movement of people and commodities to and from the most remote part of the country. This contributes not only to the direct attainment of USAID program objectives but also to enhanced food security for the entire region.

4. Workforce and Operating Expenses

Although the USAID/Bissau bilateral program is scheduled to close not later than September 1998, program funds are allocated for bilateral activities through FY 1998 and it is anticipated there will be a continuing program in some form through FY 2000. So while the operating expense staff ceiling for this mission is 0 for FY 1998 and beyond, we are requesting a minimal level of staffing into FY 1999 to facilitate the process of moving to a non-presence program, implement ongoing program activities and close mission operations already underway. The position we are requesting for the longer term is one of our controller support positions to complete disbursement of funds and to follow-up on tasks associated with an orderly closure of mission activities. We also suggest that one program support position be encumbered for up to one half year.

If these positions are not approved, the transition and close-out tasks will be completed by the program-funded staff hired to implement the program with temporary duty assistance from REDSO and Washington. While this may be adequate, it also leaves the Agency more vulnerable to waste, fraud and abuse with a lack of continuity and unclear responsibility for the management of the funding. Further, it will be using staff with skills not appropriate for the tasks described above or using more travel expenses to cover with assistance from Abidjan or Washington. The salaries of the proposed local hire staff are probably much less than the travel costs that would be incurred.

For the shorter term, USAID/Bissau is reducing the operating expenses wherever possible. At this time, USAID/Bissau staff consists of one U.S. direct hire, one third country hire personal services contractor and 16 local hire personal services contractors. We have already eliminated all redundant staff resulting in no backup for any function in the mission. The additional reductions to be absorbed this fiscal year will result in staff acquiring still

additional duties and responsibilities, particularly since there are still new obligations through FY 1998.

OC 11/OC 12

With continuing reductions of staff, the funding needed to compensate staff and the benefits for that staff will be steadily declining. The FSN Separation Fund will need to be maintained at some level until all staff is separated.

OC 13

With staff reductions and only increased workloads for the closeout, site visits by headquarters and mission staff will be maintained over time.

OC 21

Freight costs are reflected in FY 1997 to cover the transfer of the former USAID Representative to USAID/Washington and in FY 1998 in case the remaining staff member is also transferred to Washington. Given the reduced number of missions overseas, this possibility is higher than ever before. We have included freight for office furniture in FY 1998 to support the move of the office site into smaller, less costly quarters.

OC 22

During FY 1997, the mission allowed the lease for the second USDH residence to expire because it is not anticipated that this second house will be needed. FY 1998 will be the last year for payment of a separate office facility. The mission proposes to move the office during FY 1998 into what is now the USAID Representative's residence as well as maintaining a small apartment in that residence as temporary duty quarters. This building has already received additional security, electrical and water storage improvements which are critical to living and working in Bissau. Moving to another site would probably require extensive investments in a new facility.

OC 23/OC 25

Communications, utilities, courier, security, other miscellaneous, and ICASS costs are projected to increase in FY 1998 because of the trend in these costs in this country. However, with the closing of the office building in FY 1998, these costs should be considerably reduced in FY 1999 although some level of expense will be incurred even if there is no other operating expense-funded staffing. Even temporary close out staff will need this support.

OC 26

Absolutely minimal expenses for supplies and materials are anticipated after FY 1997 and this expectation is reflected in the proposed budgets.

5. Environmental Compliance

Through local contractors and the Tropical Research and Development, Inc. are completing a Programmatic Environmental Assessment and a Tropical and Biodiversity Assessment at this time. While these studies acknowledge the need for a much more proactive role on the part of the Government of Guinea-Bissau and an awareness of biodiversity, environmental and natural resources management concerns by the implementers of the USAID program, not significant changes in the USAID program are recommended at this time. We do not anticipate that additional environmental studies will be needed in the coming year.

6. Bureau for Humanitarian Response

The Africare Title II Non-Emergency program in Guinea-Bissau contributes both to the goals and objectives of the USAID program as well as contributing to the food security of the country.